Slater Steel

1977
ANNUAL
REPORT

Slater Steel Industries Limited

Highlights

In thousands of dollars except per share data

	1977	1976
Net sales	$55,724	$50,288
Net earnings	$ 2,009	$ 3,950
Per common share	$ 0.63	$ 1.38
Fixed asset expenditures — net	$ 1,672	$ 3,277
Depreciation	$ 2,119	$ 1,990
Working capital	$16,592	$17,785
Fixed assets — net	$25,650	$26,097
Total assets	$78,240	$76,058
Common shareholders' equity	$41,739	$41,759
Per common share	$ 16.16	$ 16.17

President's message

Last year at this time we had experienced a significant reduction in our sales volume and earnings. This change primarily resulted from appreciable softening of the steel bar markets following two buoyant years of activity. At the same time, our hardware sales to the Utilities industries had held up, only because they were obtained on a contractual basis. There were signs of recession in this segment of our business through deferment and cancellation of major power line construction project orders.

We took the optimistic view that our economy had bottomed out and would take an upturn, and there was every reason to believe that this trend would be supported by similar economic strengthening in both the U.S. and in the international markets.

As it turned out, we were wrong in adopting such an air of optimism in a climate of uncertainty. Anticipated improvements in market demands and business activity did not materialize and this absence of recovery led not only to disappointment, but also to frustration and many irrational reactions by a large segment of our industry. These conditions were not confined to Canada, but prevailed internationally, setting the stage for an under-utilization over-supply situation among the majority of industries.

This continued recession did not afflict all segments of the economy, and certain markets, especially those related to consumer products, remained buoyant. As a result, we witnessed a period of varying business performance in which some manufacturers showed a good year and maintained satisfactory profit margins, while other companies did not fare as well. Certainly this was a poor and difficult period for the bar segment of the steel industry which was directly tied to the construction and capital goods markets.

Following the period of stagnation that was felt by many businesses, a significant erosion of pricing occurred as a result of competitive actions to secure an increased share in a lean market. Both our operating divisions were selling many products at price levels prevailing three to four years ago. At the same time, operating costs continued to escalate, resulting in a serious profit squeeze that could only be partially offset by aggressive cost reduction action.

In reviewing a disappointing operating year, it would be easy to complain about the actions of our government, the cost and inefficiencies of labour and the problems of inflation and unemployment. Obviously, these difficult conditions are not unique to Canada and, in fact, we are probably better off than most countries. This does not mean that we can remain complacent. We must take and encourage action to stimulate our Canadian economy bearing in mind that this action must consider the need to live within our means and emphasize our basic strengths and capabilities.

We have worked by this philosophy at Slater, which has required significant changes in direction of our product lines, our marketing strategies and our future planning. It is recognized that change in the course of business direction is both disruptive and costly, and can further erode profits particularly in a soft period. However, unless these moves are made, we cannot look for future improvements since we can no longer build a business on the hope that the good periods of the past will return.

We expect to see an improvement in our performance in Fiscal 78, largely as a result of our own actions and not because of any improvement in general economic climate. We plan marketing programs to redirect our product mix for both Divisions and internal controls to emphasize EDP systems and profit improvement disciplines which will enhance both sales and earnings levels.

Interprovincial Steel & Pipe Corporation Ltd. has performed well over the past year despite the continued softening of the Canadian pipe markets. Their own marketing studies have revealed growth opportunities for future sales and an overall improvement in business performance during our Fiscal 78 period is expected.

We previously reported our involvement in the use and application of pre-reduced iron ore pellets at our Burlington Steel Division to supplement scrap as a raw material. The company established a purchase agreement for a supply of pellets. Economic conditions, however, have caused the price of scrap to fall significantly below the cost of pellets as an alternate raw material and the supplier of the pellets has not as yet been able to furnish any. We are, therefore, renegotiating this agreement with our source of pellet supply.

We continued to assess the proposed mini-mill to produce wire rod during the past year, with particular emphasis on the examination of the North American market pattern as well as the existing and prospective producers of this commodity on a world basis. It was felt that our action on this proposal should be based upon the practicality of utilizing our unique strengths of proven ability and design concept. Further evaluation is to be made before a cease or go ahead decision can be reached.

Directors On October 4, 1976, Mr. Barrie Cheetham, Regional Co-ordinator for North America, British Steel Corporation (International) Ltd. resigned as a director of our company following his appointment as Special Assistant to the Chairman of British Steel Corporation. Mr. Cheetham was active with Slater from the beginning of British Steel's acquisition of controlling interest in Slater, and his sound advice and opinion in the business planning of your company will be missed.

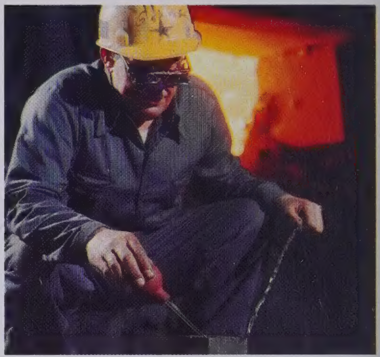
Mr. Michael K. Robinson, Senior Co-ordinator—Overseas Investments for British Steel Corporation (International) Ltd. was appointed to fill this vacancy on our Board of Directors. Mr. Robinson has worked closely with various operating companies of British Steel (International) in many parts of the world and brings considerable experience with his appointment.

On behalf of our Board of Directors I would like to thank our employees for their commendable high level of performance and express appreciation to our suppliers, customers and shareholders for their continuing support of our business activities.

Bruce M Hamilton.

Bruce M. Hamilton, President.

Ossie Schwandt and Primo Salvatori (left) are dismantling a mill roll assembly in preparation for re-dressing of the roll.



In the Melt Shop (top right), Bruce MacLeod is preparing to take a test for chemical analysis on a heat of steel.

Right: Louie Valeri preparing the test sampler in the Melt Shop.

Burlington Steel

During Fiscal 76 we experienced a substantial drop in demand for our basic bar products due to the softening of the markets to which these commodities were sold. Some improvement in sales activity occurred at year end, and we predicted a slow but continuing recovery in Fiscal 77. Business did not perform as expected and, in fact, the modest increase that did take place in steel bar sales, in both the domestic and international markets, did not provide a corresponding improvement in earnings.

Marketing Fiscal 77 brought with it a gradual erosion of steel bar prices which essentially was the result of competitive pressure in the under-utilization over-supply situation. At the same time, the dumping of certain off-shore bar stocks and the dramatic deterioration of world rebar prices resulted in the prices for many of our products falling to 1974 levels.

We achieved an improvement in total sales dollars for the year, primarily from higher shipment levels and improved product mix. This latter factor resulted from record sales of special bar products, including a major portion of alloy grades; a first for Burlington Steel. It should be pointed out that this is a particularly difficult market to penetrate because of the historic aversion to "concast" products and the necessity to conduct numerous trials and tests to prove the acceptability and reliability of our material as a new supplier. Considerable headway was made during the year with this special product line, and we ultimately received approval from the major automotive, truck and agricultural companies in both Canada and the United States.

This development program was costly because of the production trials, testing and special inspection, as well as the close follow-up with prospective customers. However, it has been essential in directing our interests to the specialty steel market in which we seek a continuing and reasonable participation.

Manufacturing During Fiscal 77 our total raw steel production, at 189,000 tons, was a 11.5% increase over last year. The Melt Shop operated at just over 60% of capacity and established new productivity records. This achievement occurred in spite of the fact that we extended the number of different grades of steel being melted by 50%, to 66, and included several different alloy compositions.

The Rolling Mill processed 160,000 tons of bars at a rate comparable to that of last year, in spite of the fact that the number of different sections rolled increased by 65%, while the average tons per roll setup reduced to 25% of our record production levels of two years ago. These factors reflect the penalty involved in entering new markets for our bar products and, more particularly, seeking participation for special bar quality application.

Manufacturing costs rose just under 10% last year, with the major increases including significant escalation of energy costs, increases

Slater Steel Industries Limited

681 KING STREET WEST, HAMILTON, ONTARIO

Interim Report

September 30, 1977

Slater Steel Industries Limited

SLATER STEEL INDUSTRIES LIMITED

Consolidated Statement of Earnings

(In thousands of dollars)
(Unaudited)

	Six Months to September 30 1977	Six Months to September 30 1976	Quarter Ended September 30 1977	Quarter Ended September 30 1976
Net sales	$ **29,022**	$ 27,970	$ **15,062**	$ 13,278
Cost of sales, excluding the following items	**26,982**	25,620	**13,961**	12,135
Depreciation	**1,110**	1,110	**549**	551
Interest on long term debt	**486**	574	**243**	293
Other interest	**155**	126	**69**	58
	28,733	27,430	**14,822**	13,037
	289	540	**240**	241
Income taxes	**150**	195	**115**	79
Earnings before equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)	**139**	345	**125**	162
*Equity in earnings of IPSCO	**707**	724	**490**	469
Net earnings for the period	$ **846**	$ 1,069	$ **615**	$ 631
Net earnings per common share	**25¢**	34¢	**20¢**	21¢

Consolidated Statement of Changes in Financial Position

(In thousands of dollars)
(Unaudited)

	Six Months to September 30 1977	Six Months to September 30 1976
SOURCE OF FUNDS		
Operations		
Earnings before equity in earnings of IPSCO	$ **139**	$ 345
Depreciation	**1,110**	1,110
Dividends received	**282**	—
Funds from operations	**1,531**	1,455
Decrease in other assets	**42**	39
	1,573	1,494
USE OF FUNDS		
Net additions to fixed assets	**333**	397
Redemption of debentures	**12**	12
Retirement of preference shares	**85**	76
Dividends	**597**	1,070
	1,027	1,555
INCREASE (DECREASE) IN WORKING CAPITAL	$ **546**	$ (61)

*Equity in earnings of IPSCO is for the period ended August 31, 1977 based on the latest published information issued by IPSCO.

To Our Shareholders:

Your directors submit the unaudited Consolidated Statement of Earnings and unaudited Consolidated Statement of Changes in Financial Position for the six months ended September 30, 1977 together with results for the most recent quarter and comparable figures for the previous year.

Earnings for the first six months of Fiscal 1978 were $846,000, or 25¢ per common share, down 21% from earnings of $1,069,000, or 34¢ per share, in the same period last year. However, earnings of $615,000 in the latest quarter are comparable to the results of the previous year.

Burlington Steel Division shipments have improved somewhat from the levels of the similar period during the past two years but are still only 85% of activity levels experienced during calendar 1974. The market for construction related steel bar products continues to be depressed with little sign of recovery over the next year in this segment of the industry. Improvement in both sales and earnings for the Division has resulted from our concentration and emphasis on product mix with favourable acceptance of our product being achieved in the automotive and forging industries. Over the past six months, Special Bar Qualities and Alloy Bar products have been established as a major product line, representing over 25% of shipments and surpassing the Division's traditional reinforcing bar product.

Sales for the Slater Products Division are improved over the previous quarter and over last year's comparative period and the Division has outstanding orders near record levels. Prices, however, continue to be depressed with the majority of the Division's product lines selling at 1974 prices. This Division reflected a modest profit in the September quarter and we anticipate some further improvement over the balance of Fiscal 1978 although earnings will not be comparable to Fiscal 1977.

The latest published results of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) for their latest quarter reflect record sales levels with earnings slightly above last year's comparative quarter. The Slater Steel equity of $707,000 in IPSCO's earnings for our first six months, which is shown in the Consolidated Statement of Earnings, includes dividends received of $282,000.

Bruce M Hamilton

B.M. Hamilton
President

November 4, 1977
Hamilton, Ontario

Crane operator Francesco Battista (left) is guiding a lift of finished steel into place in the warehouse.

Left: Vincy Thompson is the Secretary-Receptionist for the Industrial Relations Department.

Right: The 1977 recipients of watches for 20 years' service and of special presentations under the Employee Suggestion Plan show their awards at the annual Veterans' Banquet.

in wages and salaries and price hikes for heavily used supplies. Scrap prices moved downward from \$80.00 to \$60.00 per net ton during the year, and while providing a favourable cost trend, reflected the relatively weak steel market and limited demand for this raw material.

Many manufacturing and engineering innovations were implemented in Fiscal 77. Two of the more significant areas include a mechanical unpacking system for handling flat bars from the notch bar cooling bed on the Rolling Mill, and a newly designed concast mould to achieve increased capacity, improved quality and reliability.

Our capital spending programs for the year were held to \$1.25 Million and included nineteen different projects. The most important item was the renovation of our Ball Shop, which was completed and successfully operating one month ahead of schedule at a cost 10% below the budgeted estimate.

People In February, 1977, Mr. John Fogarty resigned as Vice-President – General Manager of the Division to assume an executive position in a United States specialty steel mill. Mr. Fogarty managed the many changes implemented at Burlington Steel over the past three years, the most significant being the successful production of our special quality bar product line. However, this achievement was a total effort and required the patience, ideas and determined effort of all our organization.

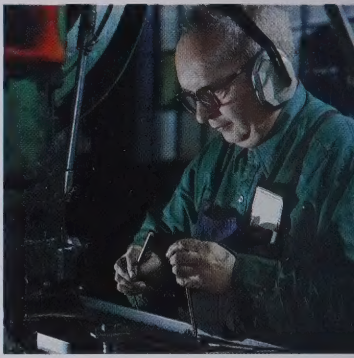
Fiscal 77 was a tense year for our people considering the eleven month delay in receiving the A.I.B. rulings on our new labour contract, the uncertain business climate, and the occurrence of organizational changes. Our close relationship with our employees by regular communications, good liaison with our Union executive and a determined effort to explain and discuss matters affecting our business health, have helped to prevent suspicion, frustration and disillusionment.

We again achieved an improvement in our Safety performance following the excellent results of last year, maintaining our position among the leaders in the I.A.P.A. ratings for heavy industry.

In spite of a disappointing financial performance, recognition and appreciation must be given to the personnel of this Division who worked hard and contributed their ideas and opinions to bring about the efficiencies and success of the Burlington Steel operation.

Future outlook We anticipate an increase in sales dollars, improved earnings but little change in shipped tonnage during the coming year. This projection is based upon minimal market growth for steel bar products, improving pricing stability and a significantly higher participation in the special quality markets. We completed the transition of Burlington Steel into a specialty mini-mill during the past year; now we must take advantage of this accomplishment and establish our position as an important supplier to the special steel markets which will be the key to our future operations.

Gerry LaPierre (left) is removing a hot steel bar from a reheat furnace before placing in a forging hammer for forming.



In the Quality Assurance Department John Pickford (top right) checks the hardness of a forging after its heat treatment.

Right: In the Light Press Department, Murray Smith forms an insulator bracket.

Slater Products

Deferrals and cancellations of some major project construction work by Provincial Utilities occurred during the latter part of Fiscal 76. This action resulted from questioning by government, environmental groups and consumers of the proposed growth plans of the Utility industry which changed the priorities, schedules and planning for future building programs. These changes reduced our sales of project EHV hardware during F77 to approximately half the predicted level. At the same time, these restraints, together with the continued softness in the domestic economy, resulted in an overall deterioration of the distribution hardware market of 26% against projected levels. The under-utilization of the manufacturing industries supplying Utilities led to a general price erosion for standard commodities.

Marketing Our sales for Fiscal 77 dropped 5% below the previous year, which essentially relates to the change in product mix and general price deterioration on our standard product line. In many instances, prices reduced to 1974 levels reflecting the highly competitive bidding. In spite of these problems and distortion in the market place, we retained our share as a major total supplier of hardware to the Utilities industry.

Sales to the Communications segment of the market improved significantly as a result of their approved rate increases and active construction programs. It is interesting to note that this important and growing market represents 40% of our current sales volume.

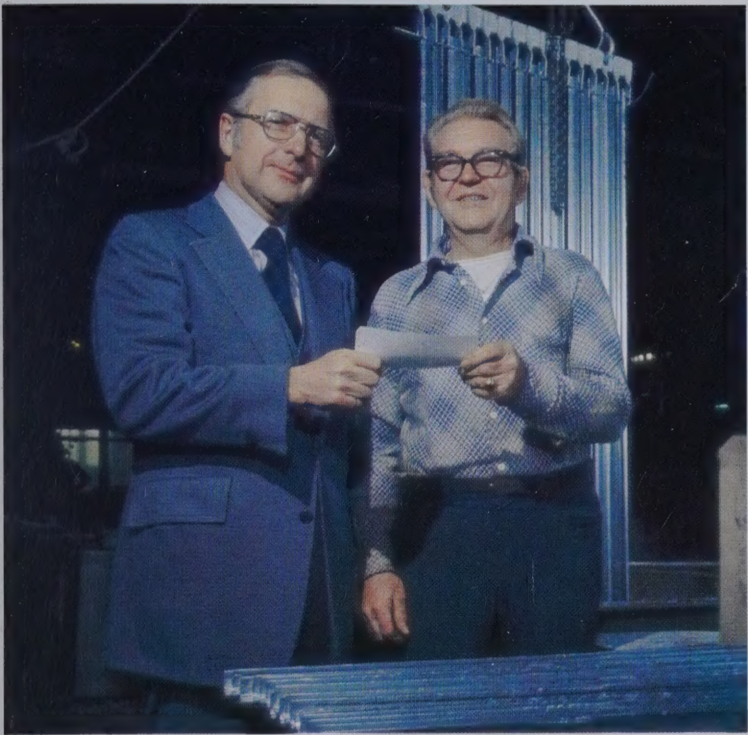
The OEM segment of our business showed the strongest growth for the year, increasing in volume by 50% over the previous record year. Major work included stampings, castings and custom galvanizing, buoyed by the addition of several new accounts and markets.

Export sales maintained previous historic levels, with the largest single order of EHV products going to Pakistan. A major move towards establishing our presence in the international markets was achieved through a long term agreement with Bowthorpe Holdings Ltd. of England. Bowthorpe has valuable marketing experience with the Utilities industry in many parts of the world, and our agreement provides them with the license to manufacture and sell our EHV products on a world-wide basis.

Manufacturing During Fiscal 77 our manufacturing operation ran at approximately 80% of capacity. There were changes in the utilization of various operating departments reflecting adjustments to product mix, with the Foundry, Press Shop and Galvanizing Department being particularly active throughout the year.

Our overall operating costs increased by 11% over last year, primarily due to higher prices for raw materials and supplies, and increases in wages and salaries, although there was an offsetting factor from our cost reduction program.

Capital projects in Fiscal 77 increased over previous years, to



Left: Bruce Hamilton, President, presents Don Peall of the Galvanizing Department with the largest award to date under our Suggestion Plan program.

Richard Woodward and Wayne Vardy (top right) are detailing the design of one of our pole line hardware products.

Right: Our Computer Room staff includes John Bush, a Programmer-Analyst, and Frances Henry, the Computer Operator.

approximately $400,000. The major investment was for a spin galvanizing system which provided benefits to both the quality and efficiency of our galvanizing operation. Other projects included changes in layout and improvement of equipment in the Foundry, modification of our "Preformed" machines to increase productivity, and improvements to several of our threaders to provide better productivity, quality and utilization.

Many contributions were made to the Division through our consultant work and development of new products and markets. Of particular importance was the design and supply of hardware components for an anti-galloping and damping device on a River Crossing for Philadelphia Electric.

In the development area, we received orders in excess of $2 Million related to new product items. We have initiated a program to enter the manufacture of Marine hardware in Fiscal 78. The production design of four key components, as our introductory phase, has been completed and plans are under way for the sale and distribution of these items.

No action was taken in developing our proposed move to the newly acquired site in Burlington, Ontario because of the current changing and softening of the Utilities market. This particular plan is being re-examined to determine the optimum approach for modernizing portions of our manufacturing facilities to meet market trends and product needs.

People Two major job functions established in Fiscal 77 included a Manager – Marketing to oversee commercial planning and control of sales activity, and a Manager – Material Control to co-ordinate our production planning and inventory control through our newly developed EDP systems in liaison with Purchasing and Sales.

Our work force remained stable for most of the year, with continuing emphasis directed to safety and housekeeping providing an improvement of 25% in accident frequency over an already good past performance.

Our people are to be commended for their continuing interest and high degree of involvement in our day-to-day activities, as well as their contribution toward certain aspects of planning and development.

Future outlook Fiscal 78 should see a return to a strong level of construction of EHV systems across the country. Many thousands of miles of this form of power transmission are planned for installation before 1990, and we expect to take a major role in the design, development and supply of hardware components for these important programs. Standard distribution hardware will continue to be a highly competitive segment of the market. We look for growth in the Communications market and expect to contribute to this activity through product design and supply.

Personnel

The Anti-Inflation Legislation had considerable impact on employee wage, salary, and benefits administration in Fiscal 77. Final implementation of the economic elements of the collective agreements, signed with the divisions' Union Executive approximately one year ago, did not occur until the second half of the fiscal year. Improvements to benefits for salaried employees and pensioners were approved by the Anti-Inflation Board and were implemented during the last quarter of the fiscal year.

There was an average of 1103 employees on the payroll during the fiscal year. Wages and salaries paid for work totalled $15,414,000 with an additional $1,787,000 being paid for vacation pay and statutory holidays. Group Insurance Plan premiums amounted to $672,000 and Company contributions to pension plans were $1,318,000. A total of $1,116,000 was paid to government programs (Canada/Quebec Pension Plans, Unemployment Insurance, Workmen's Compensation, OHIP).

Employee safety continued to receive priority attention throughout the two operating divisions. Job safety analysis, an element of the Safety Program, was completed for the majority of positions in the Burlington Steel Division and similar efforts are underway in the Slater Products Division. Ongoing attention to plant housekeeping resulted in steady improvements throughout the year.

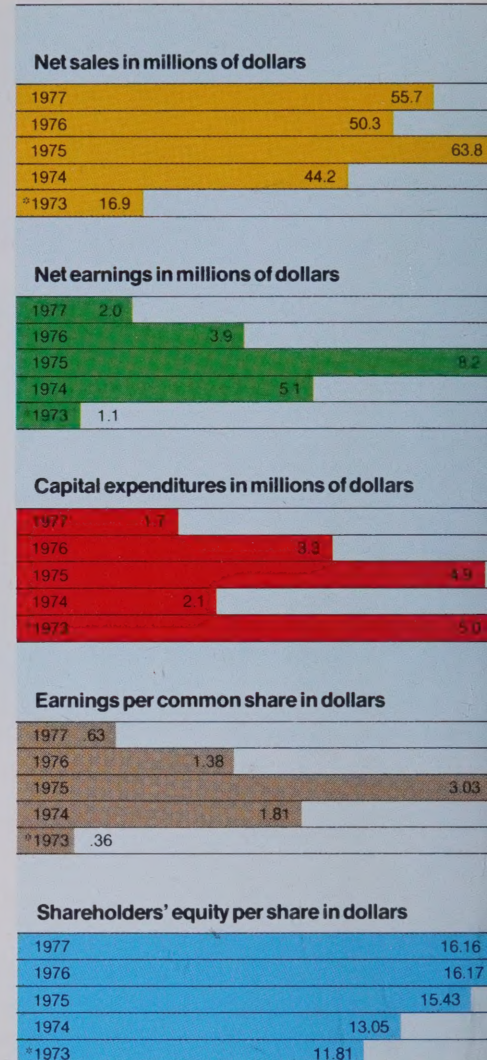
Reductions in lost time accidents occurred in both divisions. For the calendar year 1976, Burlington Steel had the lowest lost time accident frequency for steel companies in its Industrial Accident Prevention Association classification grouping. Slater Products' performance was commendable as well, as it finished 1976 in the top third of its I.A.P.A. grouping.

During Fiscal 77, several substantial suggestions pertaining to safety and cost reductions were submitted by employees through the divisions' suggestion plans. Awards totalling $5,400 were paid; a significant increase over the previous fiscal year.

A total of 50 employees participated in the Tuition Aid Program. Reimbursement for completion of Company approved courses amounted to $3,900.

In the area of public relations, a "Twinning" Program was established with a local secondary school. The purpose of this program is to provide a number of senior students with the opportunity to gain exposure to the basic principles of business operations. Several student and teacher visitations occurred; Company representatives participated in the school's community night.

Several senior managers were active participants in various non-profit community service efforts.



*For the 5 months period ended March 31, 1973

Administration & financial review

Sales and earnings Net sales for the year ended April 2, 1977 were $55,724,000, an increase of 11% over net sales for Fiscal 76 of $50,288,000. This sales increase is more a reflection of increased shipments as opposed to increased selling prices.

Earnings from operations before equity in IPSCO earnings were down from $1,906,000 in Fiscal 76 to $252,000 for the year just completed. Continuing cost increases during the year were not offset by selling price increases and in fact selling price pressures developed, which further aggravated our profitability during the latter part of the year. Including equity in the earnings of IPSCO, the earnings for Fiscal 77 were $2,009,000, or 63¢ per common share, compared to $3,950,000 or $1.38 for Fiscal 76.

Financial position Capital expenditures at $1,672,000 were less than the depreciation provision for the first time since 1971. The major portion of this expenditure, about $1 Million, was used to refurbish and expand the Grinding Ball Shop at Burlington Steel.

This low level of capital expenditure is a reflection of current operating results and is expected to continue until a more reasonable earnings level is achieved. The capital expenditures for the next fiscal year should be in the area of $1 Million.

Working capital decreased during the year by $1,193,000 as a result of the low earnings. Accounts receivable and Inventory levels are comparable with Fiscal 76, whereas Accounts Payable levels have increased by 50% for numerous reasons, although the Company's policy for the payment of accounts has not changed. The working capital ratio remained strong at 2.5:1.

IPSCO Earnings reported by IPSCO to its shareholders for the twelve months period ended February 28, 1977 were $9,869,000, down 14% from the previous year's level of $11,291,000. However, IPSCO's earnings in the last six months were up 11% from the previous year and the company reports that sales and production for the balance of calendar 1977 will be higher than last year. Slater Steel's equity in these earnings, which are included in the Consolidated Statement of Earnings, are $1,757,000 for Fiscal 77 and $2,044,000 for the comparable 1976 year.

Shareholders Equity per common share at year end was $16.16 per share on 2,582,332 shares outstanding, virtually unchanged from $16.17 the previous year.

Dividends on common shares during the year were maintained at the rate of 68¢ per year, the same as the last three years.

Information systems Because of the in-house computer, programs were developed during the year to process Inventory Control, Scheduling and Sales Analyses for the Slater Products Division. In addition, the Accounts Payable and General Ledger functions were placed on the computer. In the coming year, an Order Entry system and Materials Requirement program will be developed and added to the processes for the Slater Products Division. For the Burlington Steel Division, the manual Payroll system will be converted and an initial start made on the Inventory Control system.

Purchasing The availability of materials has not been a concern during Fiscal 77; however, spiralling cost increases continued to be the biggest problem for the Purchasing department. The cost of power and gas, as we all know, increased significantly and other increases were recorded for electrodes, refractories, aluminum and in wages and salaries. Sourcing of material at lower cost or improved quality was the major program during Fiscal 77.

Consolidated Balance Sheet

In thousands of dollars	As at April 2, 1977	As at April 3, 1976
Current Assets		
Accounts receivable	$ 8,787	$ 7,488
Income taxes receivable	196	—
Inventories (Note 2)	17,928	18,389
Other current assets	585	394
	27,496	26,271
Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) (Note 4)	25,000	23,525
Fixed Assets (Note 3)	25,650	26,097
Other Assets	94	165
Total Assets	$78,240	$76,058

Current Liabilities		
Bank advances	$ 4,272	$ 3,572
Accounts payable and accrued charges	5,742	3,921
Income taxes payable	—	141
Dividends payable	533	537
Deferred income taxes — Current portion	357	315
	10,904	8,486
Long Term Debt (Note 5)	11,533	11,545
Deferred Income Taxes	7,530	7,440
Shareholders' Equity		
Preference shares (Note 6)	6,534	6,828
Common shares (Note 7)	12,428	12,428
Retained earnings	29,311	29,331
	48,273	48,587
Total Liabilities and Shareholders' Equity	$78,240	$76,058

On behalf of the Board
G. P. Osler, Director
B. M. Hamilton, Director

Consolidated Statement of Earnings

In thousands of dollars	Year ended April 2, 1977	Year ended April 3, 1976
Net sales	$55,724	$50,288
Cost of sales, excluding the following items	51,876	43,879
Depreciation	2,119	1,990
Interest on long term debt	1,120	150
Other interest	287	1,071
	55,402	47,090
	322	3,198
Income taxes		
Current	(20)	762
Deferred	90	530
	70	1,292
Earnings before equity in earnings of IPSCO	252	1,906
Equity in earnings of IPSCO (Note 4)	1,757	2,044
Net earnings for the year	$ 2,009	$ 3,950
Net earnings per common share	$ .63	$ 1.38

Consolidated Statement of Retained Earnings

In thousands of dollars	Year ended April 2, 1977	Year ended April 3, 1976
Balance at beginning of year	$29,331	$27,425
Net earnings for the year	2,009	3,950
Surplus realized on retirement of preference shares	108	108
	31,448	31,483
Dividends		
Preference shares	381	396
Common shares	1,756	1,756
	2,137	2,152
Balance at end of year	$29,311	$29,331

Consolidated Statement of Changes in Financial Position

In thousands of dollars	Year ended April 2, 1977	Year ended April 3, 1976
Source of Funds		
Operations		
Earnings before equity in earnings of IPSCO	$ 252	$ 1,906
Depreciation	2,119	1,990
Deferred income taxes	90	530
Dividends received	282	704
Funds from operations	2,743	5,130
Short term bank borrowings refinanced as long term debt	—	10,000
Decrease in other assets	71	46
	2,814	15,176
Use of Funds		
Net additions to fixed assets	1,672	3,277
Redemption of debentures	12	108
Retirement of preference shares	186	208
Dividends	2,137	2,152
	4,007	5,745
Increase (Decrease) in Working Capital	(1,193)	9,431
Working Capital at Beginning of Year	17,785	8,354
Working Capital at End of Year	$16,592	$17,785

Notes to Consolidated Financial Statements April 2, 1977

1 Summary of principal accounting policies

Principles of Consolidation The Consolidated financial statements include the accounts of Slater Steel Industries Limited and its wholly owned subsidiary, N. Slater Company, Limited. The investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) is accounted for by the equity method and includes equity in undistributed earnings to February 28, 1977, based on the latest information reported to its shareholders.

Inventories Inventories are valued at the lower of cost and net realizable value. Inventories of Slater Products Division are recorded at standard cost and inventories of Burlington Steel Division are recorded at average cost, both systems based on current material, labour and overhead costs.

Income Taxes Income taxes are provided on the tax allocation method and the resultant deferred income taxes result principally from claiming depreciation for tax purposes in excess of depreciation provided. The Federal investment tax credits are accounted for by the flow through method.

Fixed Assets In 1961, property, plant and equipment of the Burlington Steel Division was restated to reflect depreciated replacement value as appraised by Warnock Hersey Appraisal Company Ltd. All other fixed assets, including subsequent additions to the Burlington plant, are recorded at cost. Fixed assets are depreciated at annual rates intended to write them off over their estimated useful lives. Rates for major assets are:

Buildings	5% to 6⅔% straight line
Machinery and equipment	5% to 6⅔% straight line

Based on the latest published information issued by IPSCO, fixed assets are stated at cost and depreciation is provided at the following annual rates:

Buildings	2½% to 4% straight line
Machinery and equipment	4% to 6⅔% straight line

2 Inventories

	1977	1976
	(in thousands of dollars)	
Raw materials and supplies	$ 5,139	$ 6,525
Work in process	5,674	3,892
Finished goods	7,115	7,972
	$17,928	$18,389

3 Fixed Assets

	1977	1976
	(in thousands of dollars)	
Land	$ 3,277	$ 3,198
Buildings, machinery and equipment	40,321	38,805
	43,598	42,003
Less accumulated depreciation	17,948	15,906
	$25,650	$26,097

4 Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)

This investment in 938,400 common shares of IPSCO represents 20.2% of its issued and outstanding common shares.

The total excess cost of the shares over the underlying net book value of the investment at acquisition was $9,439,000. The equity in earnings of IPSCO is being reduced by $236,000 per annum, an amount sufficient to amortize the total excess cost over a forty year period.

The investment is stated at cost as so reduced, plus equity in undistributed earnings since date of acquisition.

5 Long Term Debt

	1977	1976
	(in thousands of dollars)	
Sinking fund debentures		
6% Series A due January 1, 1982	$ 329	$ 329
6¼% Series B due February 15, 1983	556	568
5½% Series D due May 15, 1984 (U.S. $600,000)	648	648
Term bank loans	10,000	10,000
	$11,533	$11,545

Sufficient debentures have been purchased for cancellation to eliminate the sinking fund requirements over the next five years except for the redemption requirement on the Series A debentures at maturity.

Term bank loans bearing interest at rates of 1/2% above the lenders' prevailing prime commercial rates are due on March 15, 1979.

6 Preference Shares

Authorized and outstanding — 326,713 shares (1976 — 341,413 shares) of $20 par value each redeemable at par

	1977	1976
	(in thousands of dollars)	
60,030 shares (1976 — 65,185) 5½% cumulative redeemable, $1.10 Series	$1,201	$1,304
130,762 shares (1976 — 136,264) 5½% cumulative redeemable, $1.10 Second Series	2,615	2,725
135,921 shares (1976 — 139,964) 6% cumulative redeemable, $1.20 Series	2,718	2,799
	$6,534	$6,828

During the year the company purchased for cancellation 5,155 $1.10 Series, 5,502 $1.10 Second Series, and 4,043 $1.20 Series preference shares for $186,000. The company has met its obligations with respect to the purchase fund requirements attached to the preference shares.

7 Common Shares

Authorized — 4,000,000 shares without par value, of which 2,582,332 are issued. An employee stock option which expires August 31, 1977 is outstanding on 3,900 shares at $10.25 per share.

8 Anti-Inflation Program

Under the Anti-Inflation Act and Regulations the company's ability to increase prices, profit margins, compensation and dividends is subject to restrictions until December 31, 1978.

9 Remuneration of Directors and Senior Officers

The aggregate remuneration paid or payable to the directors and senior officers of the company was $373,000 (1976 — $399,000).

10 Pension Plan Liability

Pension costs charged against earnings in the year include payment made to trust funds for current and past service requirements as determined by independent actuarial estimates. Unfunded past service costs, not included in the financial statements, amount to $8,426,000 at April 2, 1977. This amount will be funded and charged to operations over a period ending in 1991, in annual instalments as determined by an independent actuary.

11 Purchase Agreement

In August 1975 the company entered into an agreement to purchase fixed quantities of pre-reduced iron pellets each year over a period from October 31, 1976 to December 31, 1980. These pellets were to be purchased at a price governed by a cost formula set out in the agreement. As a result of an explosion in the supplier's facilities in October 1976, deliveries of the pellets have not yet commenced. At present, the purchase price of these pellets would substantially exceed that of alternative raw materials.

Subsequent to the year end, the company has entered into negotiations with the supplier to modify the agreement so as to minimize any possible loss. Neither the effect on the company if the negotiations are successful nor the extent of the actual loss under the original contract can be reasonably estimated at this time.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Slater Steel Industries Limited as at April 2, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other procedures as we considered necessary in the circumstances.

As disclosed in Note 11 to the financial statements the company is currently negotiating the terms of an existing purchase agreement. Neither the effect on the company if the negotiations are successful nor the extent of the actual loss under the original contract can be reasonably estimated at this time.

In our opinion, subject to the determination of the ultimate loss, if any, under the existing agreement or as a result of the negotiations referred to above, these consolidated financial statements present fairly the financial position of the company as at April 2, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers and Lybrand, Chartered Accountants
May 4, 1977, Hamilton, Ontario

Left: Tom Raczynicki adds aluminum to one of the "Stahl" furnaces used for melting in the Slater Products' Aluminum Foundry.

Right: At Burlington Steel, Bud Daniels, in the 16" mill pulpit, checks a few of the many controls for operating the rolling mill.

Five Year Review

	1977	1976	1975	1974	(5 months) 1973
Sales and earnings (in thousands of dollars)					
Net sales	$55,724	$50,288	$63,846	$44,242	$16,933
Income taxes	70	1,292	2,775	1,715	862
Net earnings	2,009	3,950	8,236	5,112	1,147
Capital expenditures	1,672	3,277	4,945	2,142	4,985
Depreciation	2,119	1,990	1,711	1,437	432
Cash generated from operations (Note)	2,743	5,130	6,423	6,663	1,250
Year end position (in thousands of dollars)					
Working capital	16,592	17,785	8,354	9,800	8,003
Fixed assets—net	25,650	26,097	24,810	21,576	20,872
Total assets	78,240	76,058	72,543	58,696	50,947
Long term debt	11,533	11,545	1,653	1,653	1,872
Common shareholders' equity	41,739	41,759	39,853	33,705	30,486
Statistics per common share					
Earnings	.63	1.38	3.03	1.81	.36
Dividends	.68	.68	.68	.60	.30
Shareholders' equity	16.16	16.17	15.43	13.05	11.81
Other statistics					
Number of employees	1,103	991	1,202	1,242	1,076
Number of shareholders	5,838	6,141	6,341	6,361	6,319

Note: Cash generated from operations consists of net earnings including dividends received, plus depreciation and deferred income taxes.

Slater Steel Industries Limited

Directors
Dr. Arthur N. Bourns
President and Vice Chancellor, McMaster University

Ralph W. Cooper*
Chairman, Cooper Construction Company Limited

J. Michael Edwards
Managing Director, British Steel Corporation (International) Ltd.

Bruce M. Hamilton*
President of the Corporation

Douglas C. Marrs†
President, Westinghouse Canada Limited

Richard C. Meech*†
Partner, Borden & Elliot

Gordon P. Osler*
Vice Chairman and Chief Executive Officer, British Steel Corporation (Canada) Limited. Chairman of the Corporation

Norman B. Preece*†
President, Stanton Pipes Limited

Michael K. Robinson
Senior Co-Ordinator—Overseas Investments, British Steel Corporation (International) Ltd.

**Member of Executive Committee of the Corporation*
†Member of Audit Committee of the Corporation

Officers of the Corporation
Gordon P. Osler, Chairman of the Board
Bruce M. Hamilton, President
Ronald B. Wilson, Vice President — Administration & Finance and Secretary
David W. Albright, Treasurer
D. Allison Toner, Comptroller

Officers of Burlington Steel Division
John F. Miles, Vice President — Manufacturing
A. Gordon McDonald, Vice President — Marketing

Corporate Offices
Slater Steel Industries Limited
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Divisions
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319 Sherman Avenue North, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Slater Products Division
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Associated Company
Interprovincial Steel and Pipe Corporation Ltd.
P.O. Box 1670, Regina, Saskatchewan. S4P 3C7

Registrar & Transfer Agents
Montreal Trust Company, Toronto, Montreal, Vancouver, Winnipeg.

Listed
Toronto Stock Exchange

Auditors
Coopers & Lybrand, Chartered Accountants

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